

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Contact Person: [REDACTED]

Telephone Number: [REDACTED]

In Reference to: [REDACTED]

Date: [REDACTED]

Employer Identification Number: [REDACTED]  
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(6). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

According to your Form 1023 Application and related correspondence, you were organized in [REDACTED] as an [REDACTED] located in [REDACTED]. Your members are suppliers of [REDACTED] items and fund raising products (e.g., candy and cookies) to schools, churches, civic groups, and other nonprofits, and of equipment to corporations for company picnics and outings. Your members are made up of [REDACTED] of the same franchise [REDACTED].

According to your Constitution, your main purpose is to assist members in the solution of any problems arising with suppliers or other business functions. For example, you arrange group purchases from suppliers on behalf of your members to get better prices. You also sell various fundraising products and services, through [REDACTED] and [REDACTED]. A secondary purpose is to promote new ideas in the fundraising field and share them with the membership (through a newsletter and annual meeting). You provide members with information concerning competitors of your members. You have approximately [REDACTED].

Section 501(c)(6) of the Internal Revenue Code exempts from federal income tax business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common

business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Rev. Rul. 68-264, 1968-1 C.B. 264, stated that an activity that serves as a convenience or an economy to the members of the organization in the operation of their own businesses is a particular service for purposes of section 501(c)(6) of the Code.

Rev. Rul. 83-164, 1983-2 C.B. 95, held that an organization whose members represented diversified businesses that owned, rented, or leased computers produced by a single computer manufacturer did not qualify under section 501(c)(6) of the Code. The Service reasoned that the organization did not seek to improve conditions in a line of business, citing National Muffler Dealers Association, Inc. (infra). The Service noted that a line of business includes an entire industry, or all components of an industry within a geographic area, but not a segment of a line of business. Organizations that were found to have served only a "segment of a line" include groups composed of businesses that have licenses to a single patented product (Rev. Rul. 58-294, 1958-1 C.B. 244); market a certain make of automobile (Rev. Rul. 67-77, 1967-1 C.B. 138); or bottle one type of soft drink (Rev. Rul. 68-182, 1968-1 C.B. 263). These groups promoted segments of an industry at the expense of others in the industry.

In National Muffler Dealers Association, Inc. v. United States, 440 U.S. 472 (1979), the Supreme Court held that an organization of muffler dealers franchised by Midas International Corporation did not qualify under section 501(c)(6) of the Code because the organization did not promote a line of business. The Court regarded the line of business limitation of section 1.501(c)(6)-1 of the regulations as well grounded in the origin of section 501(c)(6) and in its enforcement over a long period of time. The Court concluded that 501(c)(6) exemption is not available to aid one group in competition with another within an industry.

[REDACTED]

The activities of a 501(c)(6) organization must be directed to the improvement of business conditions of one or more "lines of business" and not a mere segment of a line of business, such as the franchisees of a particular franchisor. The facts indicate that you do not promote an entire line of business, but merely the franchisees of [REDACTED] and their [REDACTED] products and services.

The facts also indicate that you perform group purchasing and marketing on behalf of your members. These services, which are an economy and convenience to the members, are particular services for individual persons, and are the conduct of business of a kind ordinarily carried on for profit, as opposed to activities improving business conditions in the fund raising industry as a whole.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(6) of the Code and you must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office.

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

[REDACTED]

[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[REDACTED]

[REDACTED]